

The Strategic Implications of Chinese Companies Going Global

COL HEINO KLINCK
U.S. Army

Open Source, Foreign Perspective, Underconsidered/Understudied Topics

Report Documentation Page			<i>Form Approved OMB No. 0704-0188</i>	
<p>Public reporting burden for the collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington Headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington VA 22202-4302. Respondents should be aware that notwithstanding any other provision of law, no person shall be subject to a penalty for failing to comply with a collection of information if it does not display a currently valid OMB control number.</p>				
1. REPORT DATE 2012	2. REPORT TYPE	3. DATES COVERED 00-00-2012 to 00-00-2012		
4. TITLE AND SUBTITLE The Strategic Implications of Chinese Companies Going Global			5a. CONTRACT NUMBER	
			5b. GRANT NUMBER	
			5c. PROGRAM ELEMENT NUMBER	
6. AUTHOR(S)			5d. PROJECT NUMBER	
			5e. TASK NUMBER	
			5f. WORK UNIT NUMBER	
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) Foreign Military Studies Office (FMSO), Army's Strategic Leadership Division, Fort Leavenworth, KS, 66027			8. PERFORMING ORGANIZATION REPORT NUMBER	
9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)			10. SPONSOR/MONITOR'S ACRONYM(S)	
			11. SPONSOR/MONITOR'S REPORT NUMBER(S)	
12. DISTRIBUTION/AVAILABILITY STATEMENT Approved for public release; distribution unlimited				
13. SUPPLEMENTARY NOTES				
14. ABSTRACT				
15. SUBJECT TERMS				
16. SECURITY CLASSIFICATION OF:			17. LIMITATION OF ABSTRACT Same as Report (SAR)	18. NUMBER OF PAGES 23
a. REPORT unclassified	b. ABSTRACT unclassified	c. THIS PAGE unclassified	19a. NAME OF RESPONSIBLE PERSON	

The Foreign Military Studies Office (FMSO) at Fort Leavenworth, Kansas, is an open source research organization of the U.S. Army. It was founded in 1986 as an innovative program that brought together military specialists and civilian academics to focus on military and security topics derived from unclassified, foreign media. Today FMSO maintains this research tradition of special insight and highly collaborative work by conducting unclassified research on foreign perspectives of defense and security issues that are understudied or unconsidered.

Author Background

Colonel Heino Klinck is the Chief for the U.S. Department of the Army's Strategic Leadership Division. As a Foreign Area Officer (FAO), COL Klinck served with distinction in numerous strategic positions worldwide, including six years as a U.S. Army attaché in Beijing and in Hong Kong. Some of the research for this monograph was conducted while COL Klinck was the U.S. Army Senior Service College Fellow at the Italian Ministry of Defense's Center for High Defense Studies in Rome.

FMSO has provided some editing, format, and graphics to this paper to conform to organizational standards. Academic conventions, source referencing, and citation style are those of the author.

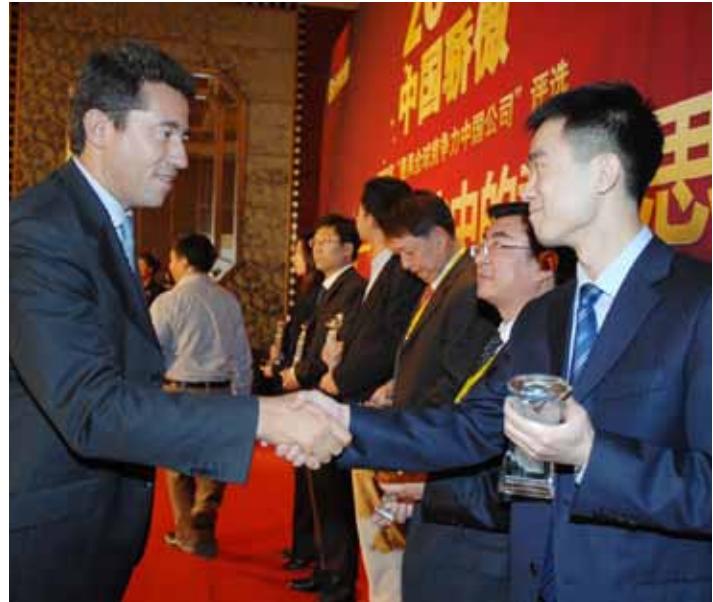
The views expressed are those of the author and do not represent the official policy or position of the Department of the Army, Department of Defense, or the U.S. government.

The Strategic Implications of Chinese Companies Going Global

By **COL Heino Klinck**

U.S. Army

Edited by Cindy Hurst, FMSO



Background

China's overseas direct investment (ODI)

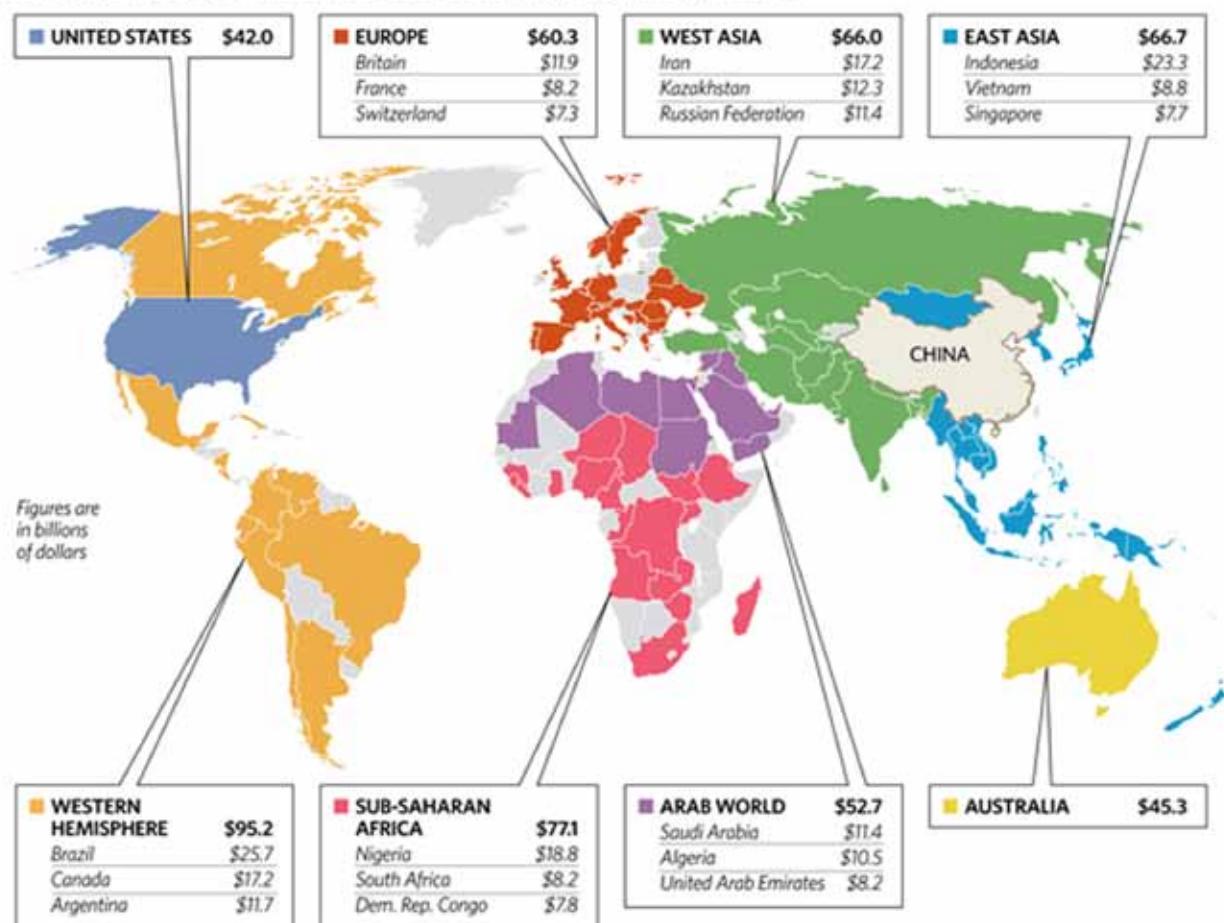
has become one of the biggest economic stories of the 21st century. In a relatively short time span, China has become the number one overseas investor amongst developing countries as well as the world's sixth largest overseas investor overall with \$150 billion invested in foreign markets.¹ This marks a development of strategic significance with implications that go beyond simple economics.

Through economic reforms put into place over three decades ago, China has been propelled to the epicenter of the global economy after an absence of several centuries. On December 18, 1978, the 11th Central Committee of the Chinese Communist Party voted to enact significant economic reforms argued for by leader Deng Xiaoping. According to Chinese President Hu Jintao, Deng's decision for reform was "a great awakening of the Communist Party."² Deng had recognized after the chaos of the Cultural Revolution that if China was to re-establish its economy, build its national power, and return to its rightful place in the sun, then major reforms were required. He further stated that China should follow a strategy of "opening to the outside world."³ Deng advocated that through reform and opening up, China would gain access to international capital, management skills, technology, and markets. These first steps led

2009 winners of the Most Globally Competitive Chinese Companies Award. Photo by Roland Berger Strategy Consultants, via <http://www.roland-berger-award.cn/mgcca/200910/media/pictures/>

China's Worldwide Reach

The Western Hemisphere continues to draw the most attention from Chinese companies, but growth is occurring more rapidly in the U.S. for investments and the Arab world for engineering contracts.



Source: The Heritage Foundation, China Global Investment Tracker dataset, updated July 2012, https://thf_media.s3.amazonaws.com/2012/xls/China-Global-Investment-Tracker2012.xls.

heritage.org

The China Global Investment Tracker created by The Heritage Foundation revised and updated July 9, 2012, via <http://www.heritage.org/research/reports/2012/01/china-global-investment-tracker-2012>

to China surpassing Germany to become the world's number one exporter, surpassing Japan to become the world's second largest economy overall, and becoming the world's largest consumer of energy ahead of the United States.

China's economy has grown by a factor of seven in the past 20 years, faster than the United States and Japan grew during their early stages of economic development. It took Japan 25 years to grow six times during the period 1960-1985 while the United States needed over 60 years to grow 3.5 times from 1870 to 1930. Moreover, China's gross domestic product (GDP) growth is projected to continue at annual growth rates of at least 7 percent through the next decade and beyond.

China's ODI is a relatively new phenomenon having taken center stage in only the last decade, particularly in the past five years. In 2004, China ranked only 28th in terms of ODI in the world.⁴ In the years 2003-2008, the annual growth rate in Chinese ODI was 60 percent. More interesting perhaps is that during the height of the global financial crisis in 2008 while worldwide ODI contracted by approximately 20 percent, Chinese ODI doubled.⁵

China's strategic emphasis on ODI was, similar to Deng's initiative, a top-down decision made in Beijing at the national level. In the mid-1990s, the going out strategy known in Mandarin as *zou chu qu* was inaugurated by the State Economic and Trade Commission by selecting 120 "national champions" to go abroad as the spearhead of Chinese foreign business engagement.⁶ In 1997, the 15th Congress of the Chinese Communist Party (CCP) encouraged State Owned Enterprises (SOEs) to enter the competitive world market by investing abroad. The then-President Jiang Zemin communicated the government's intent to "establish highly competitive large enterprise groups with trans-regional, inter-trade, cross ownership and transnational operations" in order to "encourage Chinese investors to invest abroad in areas that can bring China's competitive advantage into play so as to make better use of both Chinese and foreign markets and resources."⁷ In a related move, Jiang advised SOEs to go overseas in search of natural resources. This push from the top resulted in Chinese trade with the resource abundant regions of Southeast Asia, Latin America, and Africa growing by an amazing 600 percent during the period 2001-2007.⁸

Meanwhile, in 2000, the "Go Global" policy was officially formulated by Premier Zhu Rongji in his annual policy address during which he encouraged Chinese companies to invest abroad. This was in conjunction with China's pending accession to the World Trade Organization (WTO). Zhu envisioned "Go Global" as being a platform for Chinese firms to become more competitive in the world economy. WTO integration was thus critical for China. Although it meant more foreign competition for Chinese companies in their own domestic market, it also provided Chinese companies with more and more access to foreign human capital, best

management practices, and top technologies from the foreign investors, and competitors, now able to operate in China.

The “Go Global” policy, which was a national strategy,⁹ was written into China’s overarching 10th Five Year Plan (2001-2006) as one of the key areas necessary for China’s path to globalization. The policy’s objective was to set the stage for certain Chinese companies to compete with the best foreign companies to break through to the ranks of the global Fortune 500.

An increase in its economic prowess is naturally accompanied by an increase in China’s overall national power. Yet, China consistently and forcefully rejects any intention to ever use its power and influence aggressively, refuting any territorial ambitions in its pronouncement of its peaceful rise in the world.¹⁰ However, it is uncontestable that China’s ODI adds to its political capital and influence, both directly and indirectly, across the globe.

This paper explores China’s economic and political strategies of going global as well as the geopolitical implications for national security in political, economic, and diplomatic terms for the United States and other countries.

The Chinese Government Takes an Active Role in ODI

Internationally, China’s global status depends, in part, on its membership in key international organizations such as the WTO and other economic bodies. The internal Chinese debate on whether to undertake the effort to gain such memberships pitted those in favor of greater integration into the world economy against isolationist tendencies concerned about the dangers of too much foreign influence. Greater integration into the world economy was clearly seen as a prerequisite for sustained growth of the Chinese economy. Thus, two parallel dangers emerged for the Chinese government and for the CCP. If the government did not decide to wholeheartedly embrace the global economy, along with its threats of increased exposure to Western democratic values, then it risked lagging behind economically, which was not without its own risks. Chinese history is fraught with economic problems leading to social and political

crises. Yet if the government did decide to pursue economic globalization and international interdependence, then there would be the risk of increased exposure to foreign political and cultural influences. This worried some within the CCP that social mores and a diversification of political thought could pollute China and put at risk the Party's monopoly on political power.

The CCP's first priority was to maintain its monopoly on power. Therefore, to mitigate the political risks, the Chinese central government took a cautious approach towards ODI. ODI in the early years was minuscule and inconsequential in global economic terms. In 1979, Chinese ODI amounted to only 0.8 million renminbi.¹¹ However, it represented the beginning of a process that at its apex reached \$73 billion in 2008.¹²

In 2004, China's National Development and Reform Commission (NDRC), Foreign Ministry, and then-named Ministry of Foreign Trade and Economic Cooperation (MOFTEC), precursor to the current Ministry of Commerce (MOFCOM), disseminated the *Guidance Catalog on Countries and Industries for Overseas Investment* which identified specific targets for Chinese investment. This list of specific geographic locations and specific industries stated, "Any enterprise that complies with Guidance Catalog and holds an overseas investment approval certificate...shall have priority to enjoy preferential treatment under policies of the State in respect to funding, foreign exchange, tax, customs, and import and export, etc."¹³ The publication of such a catalog with its associated recommendations has greater implications for a country such as China than for a western market economy. Approximately three-quarters of Chinese ODI involve state-owned enterprises. The Chinese government's catalog is intended to point the way for companies, particularly SOEs, as they plan to go abroad. The 2004 catalog included recommendations for 67 countries and seven industrial sectors. Of the 67 countries, 26 were in Asia, 13 in Africa, 12 in Europe, 11 in the Americas, and 5 in Oceania. Recommended industrial sectors included electronics, manufacturing, and natural resources.¹⁴

The evolution of the central government's position on ODI evolved over 30 years and ultimately resulted in a gradual relaxation of China's regulations in order to avoid competition

“State support plays a critical role for Chinese enterprises that want to go abroad.”

and duplication by indigenous companies in overseas commercial activities as well as enhance and expand trade overall. In synthesis, the government made a series of policy decisions that directly resulted in adopting measures to facilitate Chinese overseas investments. It did this by establishing incentives, financial and other, to go abroad; streamlining administrative and approval requirements; relaxing controls for capital outflows; providing information and guidance for companies wanting to go abroad; and minimizing investment risks for Chinese companies in foreign markets.

In 2004, MOFCOM established *Systems of Reporting Country Investment and Operation Obstacles* to decrease investment risks faced by Chinese companies abroad. By leveraging Chinese diplomatic missions and other Chinese commercial enterprises abroad, it would highlight problems and challenges faced by companies in foreign markets so that potential investors were forewarned and forearmed. Plus, MOFCOM could protect Chinese companies overseas by engaging the host nation on their behalf in case issues did arise.

State support plays a critical role for Chinese enterprises that want to go abroad. Beijing provides subsidies and credits to Chinese companies attempting to enter key overseas markets involving energy projects and or technology acquisitions. Chinese state-owned banks have expanded their overseas presence to help facilitate ODI as well as to increase investments in overseas finance markets. For instance, from 2007 to 2008, Chinese investment in foreign finance sectors increased seven-fold to approximately \$14 billion. According to the Chinese Ministry of Commerce, this represented 25.1-percent of all of China’s ODI for the year.¹⁵

In April 2009, MOFCOM provided new guidelines for overseas investments. This time, the pseudo-catalog of recommended destinations for Chinese ODI covered 160+ foreign locations. Based on inputs from Chinese diplomatic missions abroad, the guidelines address

opportunities, risks, and mitigating factors.¹⁶

Also in 2009, the Chinese government announced that it would be allocating a portion of its foreign reserves specifically to support Chinese enterprises' moves into foreign markets. Plus, the sovereign wealth fund, China Investment Corporation (CIC), began a targeted campaign to expand purchases of shares of foreign companies.¹⁷

As the aforementioned data demonstrates, the Chinese central government has undertaken concrete steps since the early days of Chinese ODI. Its policies have evolved over the years to reform, streamline, and liberalize procedures, policies, services, and regimes to encourage, facilitate, and protect Chinese investments abroad. Arguably, this has resulted in a noticeable increase in the number of Chinese companies abroad and the total amount of ODI. According to MOFCOM, the total number of Chinese enterprises abroad reached approximately 14,400 firms in 2010.¹⁸

ODI: Key to Power Politics, Foreign Policy, Natural Resources, and Technology

China's big companies had to undergo evolutionary change in order to become competitive internationally. China's leaders knew that they had to build powerful companies on the global stage in order for the country's economy to grow in a sustainable manner.

Influenced by the experience of the South Korean *chaebol* and Japanese *keiretsu* models, Beijing decided to select what Peter Nolan, Director of the Chinese Big Business Program at the Judge Business School, University of Cambridge, called a "national team" of large industrial enterprises to nurture, favor, and support so that they could compete globally. These chosen few, referred to by *The Economist* as "national champions," were supported with favorable industrial policies, cheap real estate, preferential loans, and privileged access to stock listings.¹⁹ Amongst the chosen were Sinopec (China National Petrochemical Corporation) and CNPC (China National Petroleum and Gas Corporation) in petroleum and petrochemicals; AVIC (Aviation

Industries of China) in aerospace; the cities of Shanghai, Harbin, and Dongfang in power equipment; the cities of Yiqi, Erqi, and Shanghai in cars; and China Mobile and China Unicom in telecommunications.²⁰

In China, certain industrial and business sectors are deemed to comprise the core of the national economy. All corporations in these sectors, regardless of their shareholding structure, are required by law to be controlled or owned by the state (see Table 1). The sectors include power generation and distribution; oil, coal, petrochemicals, and natural gas; telecommunications; armaments; aviation and shipping; machinery and car production; information technologies; construction; and the production of iron, steel, and non-ferrous metals.²¹

Table 1: Chinese Companies Linked to Government

Company	Business	Share Owned by Government
Sinopec	Oil Production and distribution	84%
PetroChina	Oil Production and distribution	90%
China Mobile	Cellular Operator	75%
First Auto Works (FAW)	Auto maker	100%
China Minmetals	Mining	100%
Shanghai Automotive (SAIC)	Auto maker	100%
China Life	Insurance	73%
China Netcom	Fixed line phone operator	75%
Baoshan Iron & Steel	Steel	61%
CNOOC	Oil Exploration	71%
TCL	Consumer Electronics	25%
ZTE	Telecom networking equipment	53%
Lenovo	Computers	50%

Company	Business	Share Owned by Government
China Merchants Bank	Bank	18%
Haier	Appliances, consumer electronics	30%
Konka	Consumer electronics	24%
Sinochem	Petrochemicals	43%
Changhong Electric	Consumer electronics, appliances	54%
Dongfeng Automobile	Auto maker	70%
Cosco	Shipping	52%

Source: BusinessWeek, August 22/29, 2005

Those Chinese companies involved in industries described as being of strategic significance to the state have a bigger role within Chinese foreign policy. For instance, when formulating Chinese policy towards energy security, leaders of relevant large

Chinese SOEs are members of the official government decision-making cycle. Executives of major SOEs under the central government, such as CNPC, are appointed by the CCP's Central Committee's Organization Department. All executives of ministry-level SOEs are appointed by the Organization Department and approved by the Central Committee. Many commercial leaders hold ministerial or vice-ministerial rank and even serve as alternate members of the Central Committee.²²

“Those Chinese companies involved in industries described as being of strategic significance to the state have a bigger role within Chinese foreign policy.”

Senior SOE leaders' participation in both state and party systems provides them with significant political connections or *guanxi*, which allows for input into policy decisions related to their particular industries and interests. At times, the lines between Chinese company and

Chinese government can become very blurry indeed. For example, two Ministry of Foreign Affairs (MFA) officials in recent years were seconded to CNPC offices in a particular country. After these assignments, the two officials became senior diplomats in the same country in which they recently served as CNPC officials.²³

“Chinese companies are often tools used to implement Beijing’s foreign policy.”

Chinese companies are often tools used

to implement Beijing’s foreign policy. This can be seen in Beijing’s support to other countries.

Chinese foreign aid frequently consists of large infrastructure projects in third world countries

that were financed by Chinese banks and constructed by Chinese companies. Many stadiums, roads, and hospitals were constructed by Chinese dollar diplomacy in Africa, Central Asia, the South Pacific, and the Caribbean Basin. The scope and scale of Chinese commercial activities abroad certainly dictate to what degree they are a factor in foreign policy. This is usually most clearly the case with China’s energy companies in Africa and Central Asia.

Key natural resource deals appear to heighten the inter-play between the Chinese central government and Chinese companies. In 2007, the China Metallurgical Construction Corporation bought the Aynak copper mine in Afghanistan. Media accounts reported widespread Chinese government pressure on the Afghan government, including alleged bribery charges of key Afghan leaders, in support of the Chinese acquisition attempt. The \$3.5 billion deal included a longer term Chinese commitment to develop power, rail, and health infrastructure in Afghanistan.²⁴

All Chinese companies have a CCP organization parallel to the corporate structure. This is a standard requirement and allows the it to be present, visible, and vigilant in business and commercial activities. Although Chinese SOEs have evolved in many respects after decades of reform, the role of the party is still critical. A Chief Executive Officer (CEO) of an SOE

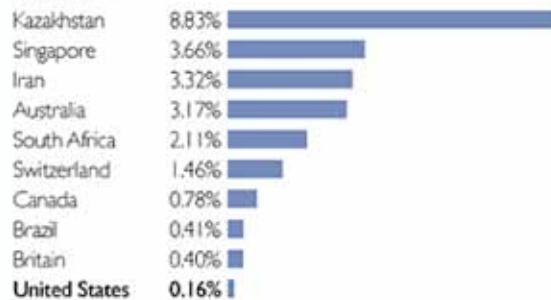
“Chinese officials routinely cycle between corporate and government posts at the choosing of the CCP.”²⁴

has to consider political factors that multinational companies' CEOs from other countries do not. Those of the largest SOEs are actually appointed by the CCP's Central Organization Department. The State Assets Supervision and Administration Commission has a controlling stake in approximately 200 SOEs. It tracks and assesses the enterprises' activities. SASAC changed the leadership amongst the rival phone companies (China Telecom, China Unicom, and China Mobile) without any notice.²⁵ Obviously this ensures that Chinese companies' activities, both domestically and abroad, are in line with the objectives of the CCP and the government. Chinese officials routinely cycle between corporate and government posts at the choosing of the CCP.²⁶ For example, in October 2003, Wei Liucheng became the Governor of the island province of Hainan. His previous job was CEO, Chairman of the Board, and CCP Secretary of China National Offshore Oil Corporation (CNOOC).²⁷

Chinese government controlled banks, such as Export-Import Bank of China (Eximbank) and the China Development Bank (CDB) also play an important political and economic role. Eximbank is the only Chinese bank allowed to offer concessional loans and is a primary lender to foreign governments. As such, it is a major player in foreign aid allocation. On its website in 2007, the bank described its mission as, “to implement the state policies in industry, foreign trade, diplomacy, economy and finance...”²⁸

Chinese Investment Is Tiny Part of U.S. Economy

Tracked Chinese Investment as a Percentage of 2009 GDP



Sources: The Heritage Foundation, “China Outward Investment, 2010,” at http://thf.medias3.amazonaws.com/2010/ids/China_Global_Investment_Tracker2010.xls; International Monetary Fund, “World Economic Outlook Database,” at <http://www.imf.org/external/pubs/ft/weo/2010/01/weodata/index.aspx> (July 13, 2010).

Chart I • WM 2956  heritage.org

The list of top Chinese investment targets includes countries blessed with sound investment environments, countries with rich natural resources, and a few countries offering both. Chart by The Heritage Foundation, via <http://www.heritage.org/research/reports/2010/07/rebalancing-chinese-investment-in-the-us>

In 2009, Eximbank provided a \$5 billion loan for an oil project to the Development Bank of Kazakhstan. This was part of a deal that provided CNPC with a 50-percent share in one of Kazakhstan's largest oil and gas conglomerates.

In 2004, the China Development Bank provided a low-cost loan of \$10 billion to the telecommunications equipment manufacturer Huawei Technologies in order to aid expansion of its overseas operations.²⁹ The CDB in 2007 founded a \$5 billion China-Africa Development fund. This is a for-profit investment fund designed to improve China's commercial connections to Africa. In 2009, CDB provided the Russian oil and pipeline companies Rosneft and Transneft with a \$25 billion loan. Shortly after that deal, a Russo-Chinese pipeline was finally agreed to which had been the subject of tense negotiations since 1994. Also in 2009, the CDB provided a \$10 billion loan to Brazil's biggest oil producer, Petrobras. In return, China received a 10-year oil supply accord. Moreover, CDB established a joint venture bank in Pakistan intended to support Chinese companies involved in infrastructure and manufacturing. In the West, CDB provided \$3 billion in 2007 for a major stake in the British bank, Barclays.³⁰

CDB's unique relevance and influence is further underscored by the bank chairman's ministerial rank in China. Furthermore, the CDB has its own policy research arm and focuses on economic development.

The Chinese government's worldwide political and economic agenda are key factors in pushing companies to go abroad. With the expansion of economic ties bilaterally and multilaterally, Beijing is able to increase its political clout and influence in those same locations, not to mention neighboring areas. It is apparent that China's outward economic involvement, as observed in its means and ends, is clearly aligned with its global strategy to enhance its global political presence. Business and political (state and party) leaders work jointly to strengthen Chinese relationships with countries and regions.

“It is apparent that China’s outward economic involvement, as observed in its means and ends, is clearly aligned with its global strategy to enhance its global political presence.”

Natural Resources and Technology: Critical Components of ODI

There are several common economic denominators in the search for motives behind Chinese ODI. They are assuring access to foreign markets, natural resources, advanced technology and intellectual property.

China's per capita availability of natural resources is relatively low. Therefore, it must go abroad to assure consistent access to these resources. From the beginning of China's going global days, the search for natural resources has been a priority for the central government's directives in Chinese ODI. The focus has been on oil and natural gas to fuel China's growing domestic economy and industry. However, copper, tin, aluminum, iron ore, lumber, and other raw materials have increasingly come to the fore as Chinese companies want to ensure long term access to the materials needed in their export driven economy.

In terms of energy resources, China did not become a net importer of oil until 1993. Chinese imports of oil have grown from 6-percent in 1993 to over 50-percent in 2009. (see Table 2). The country's dependence on foreign oil is predicted to rise to 70-percent by 2020.³¹

Table 2: Chinese oil production and consumption (million tons per year)

	1970	1980	1990	2000	2005	2006	2007
Production	30.7	106.0	138.3	162.6	180.8	183.7	186.7
Consumption	28.2	85.4	112.8	209.6	327.8	353.3	368.0

Source: *BP Statistical Review of World Energy*, historical dataset. See www.bp.com.

In March 2007, China announced nine countries as suitable for investment by the nation's oil companies. The nine countries are: Bolivia, Ecuador, Kuwait, Libya, Morocco, Niger, Norway, Oman and Qatar.³² Initially, Chinese ODI focused on relatively low-risk projects involving oil field rehabilitation and development, and the service provisions. Subsequently, CNPC, CNOOC, and Sinopec expanded their activities substantially (see Table 3).³³ The latter has focused its efforts on refinery projects while the former companies have focused on exploration and production projects.

Table 3: Countries where Chinese companies are operators of one or more concessions

Company	Countries
CNPC	Algeria, Azerbaijan, Chad, Ecuador, Equatorial Guinea, Indonesia, Iraq, Kazakhstan, Mauritania, Niger, Nigeria, Peru, Sudan, Syria, Thailand, Turkmenistan, Venezuela
CNOOC	Equatorial Guinea, Indonesia, Kenya, Burma, Philippines
Sinopec	Australia, Saudi Arabia, Ecuador
Sinochem	United Arab Emirates

Sources: Company web sites and U.S. Energy Information Administration

In 2009 China further expanded its petroleum sector and activities. SINOPEC bought the Swiss firm Addax Petroleum for \$7.56 billion.³⁴ CNPC bought the Canadian based Verenex Energy, which owns 50-percent of a major Libyan oilfield, for \$390 million. The China Development Bank and China Petroleum and Oil Company invested \$10 billion in Brazil's Petrobras, which is the prime operator of one of the world's most recently discovered offshore oil fields. Also, China loaned \$15 billion to Rosneft and \$10 billion to Transneft, both key Russian oil and pipeline firms.³⁵

In terms of mineral resources, China possesses approximately 58% of the world average of what is required to meet its needs.³⁶ The country's profound growth and development over the past three decades is illustrated by the percentage of consumption of the world's resources. As the factory for many of the world's consumer goods, China is reliant on raw materials to fuel its export driven industries. The appropriately named article "China Eats the World" underscores this historic phenomenon. The article states that China's portion of the global consumption of aluminum, copper, iron ore, and nickel doubled from 7-percent in 1990 to 15-percent in 2000 and by 2004 reached approximately 20-percent.³⁷



China devours world resources by the Milken Institute, via <http://www.milkeninstitute.org/mir/mir3q2010/document.pdf>

In recent years, Chinese officials have viewed the global financial crisis as an opportunity to acquire stakes in international supplies of strategic natural resources (see Table 4). The leadership in Beijing fully realizes that the country will need such resources in the years to come and is thus directing investments into these sectors in order to leverage the lower prices for these commodities. China's focus on Australia in the last two years is telling. This has been underscored by the efforts of the Aluminum Corporation of China (Chinalco), China Minmetals, and Hunan Valin Iron and Steel Group of China to acquire major holdings of the Australian firms Rio Tinto, Oz Metals, and Fortescue Metals Group, respectively.³⁸ Despite China possessing profound reserves of coal, Yanzhou Coal Mining Company purchased the Australian coal mine operator Felix Resources Limited for US\$2.9 billion dollars.³⁹

Table 4: Profile of Chinese mining companies with overseas operations

Company	Focus	Type
Aluminum Corporation of China (Chinalco)	Mainly bauxite and aluminum	SOE
Baosteel Group Corporation	Iron and steel	SOE
Nanchuan/Bosai	Bauxite	Private
China Machinery and Electrical Equipment Export and Import Company (CMEC)	Engineering, construction, power stations, energy, mining	SOE
China Metallurgical Group Corporation (MCC)	Engineering, construction; mining	SOE
China Minmetals Corporation	Metals mining and trading	SOE
China National Geological and Mining Corp. (CGM)	Metals production and trading	SOE
China Non-Ferrous Metals Mining Group (CNMC)	Engineering, construction, mining	SOE
Jinchuan	Nickel and platinum	SOE
Luanhe Industrial Group	Steel and mining	Private
Shenhua Group Corporation	Coal and Power generation	SOE
Shougang Group	Iron and Steel	SOE
Sinosteel	Steel and mining	
Tonghua iron and Steel	Iron and steel	SOE
Wuhan Iron and Steel	Iron and steel	SOE
Yankuang	Coal	SOE

Sources: Company web sites, industry newsletters

In sum, Chinese enterprises are trying to strengthen their control over and their access to natural resources that are necessary to continue fuelling the country's rapid economic growth. Acquiring overseas assets, for example oil and gas, is high on the agenda for the government and therefore state-owned companies such as Petrol China, Sinopec, and CNOOC are rapidly expanding overseas in order to acquire foreign assets that can help China to continue fuelling this economic growth.

In terms of technology, seeking strategic assets is a central theme for Chinese companies overseas. They go abroad to acquire a name brand, a technology, an expertise or something else (tangible or otherwise) that cannot be produced indigenously or independently.

Chinese companies in the fields of aviation, space, electronics, and engineering have sought to establish themselves abroad via various means in order to channel back to China key technologies to upgrade their manufacturing capabilities. The same applies to research and development efforts. For instance, in 1988, Shougang Corporation bought a 70-percent stake in the Masta Engineering Company, an American firm. Masta is known internationally as a top player in designing and building metallurgical equipment. With its majority stake in Masta, Shougang acquired, almost overnight, access to all of Masta's plans, blueprints, patents, and technologies.⁴⁰ This translates into an ability to leapfrog to a level of capacity and capability previously unreachable in a short time frame.

Potential Implications

The U.S. government has been increasingly concerned about Chinese companies' ties to the Chinese government and military. In 2010, U.S. lawmakers inserted a provision in the Senate's National Defense Authorization Act at the request of the Defense Department giving military agencies new power to force technology vendors to exclude subcontractors or suppliers deemed to be a potential security risk such as the Chinese companies Huawei and ZTE. There are fears that Chinese telecommunications equipment manufacturers are potentially subject to "significant influence by the Chinese military which may create an opportunity for manipulation of switches, routers, or software embedded in American telecommunications network so that communications can be disrupted, intercepted, tampered with, or purposely misrouted."⁴¹

On the other hand, Chinese financial resources are able to provide economic assistance to communities across the United States by investing in new manufacturing facilities. In these communities, Chinese firms are creating jobs that may eventually give rise to a growing constituency of pro-China voices in the United States.

“Beijing is seen to have advantages over the United States in that its overseas activities and investments are conducted by strong, well-funded, and well-connected state-owned enterprises.”

China has rapidly emerged as a peer competitor of the United States and a growing source of international influence, investment, and political and economic clout. Beijing is seen to have advantages over the United States in that its overseas activities and investments are conducted by strong, well-funded, and well-

connected state-owned enterprises. These large Chinese conglomerates connected to the Chinese government and the Chinese Communist Party garner significant international attention and give a hard edge to its soft power. The United States has little to match such centrally directed initiatives as U.S. companies are just not organized in the same manner and the U.S. government plays a much different role in the private sector.

However, there is another side to consider. Chinese investments in some areas in terms of infrastructure improvements, improving living and health standards, and regional economic development serves the causes of international and regional stability. Moreover, Chinese economic influence with its commensurate political authority may eventually serve U.S. and Western interests. Despite overall international disappointment in what appears to be almost unconditional Chinese support for Iran and North Korea, the key role of Chinese SOEs in these two economies may ultimately lead to Beijing exerting pressure when their own threshold for these two rogue regimes' behavior becomes too great to bear.

Post-Mao China has evolved into a status quo power. Hence, Chinese interests appear to have benefitted by operating within the current global system, of which Washington has been the chief architect, than by challenging it. Therefore, many argue that China's rise is not necessarily negative for U.S. interests. Conversely, the rise of Germany and Japan in the last century has been deemed analogous to China's current rise. Therefore, cautionary notes for the United States abound, pointing towards a hedging strategy particularly given China's sometime troubling international relationships with pariah states.

Conclusions

The impressive growth of the biggest developing country in the world is a key economic and political issue. China's commercial achievements abroad connote significant success in other sectors, directly and indirectly. Chinese companies' access to resources, technologies, markets, and elites translates into means of influence and power than can be harnessed for a whole host of objectives that are not necessarily focused on commercial goals only. The Chinese economic position will naturally translate into much greater political power, affecting all other countries, as well as its international relations at the regional and global level.

Objectively, there is no conclusive evidence that the rise of China is nothing more than the legitimate development and expansion of a growing and prospering country. The Chinese actually subscribe to the proposition that their "rise" is more akin to a renaissance as China was the world's largest economy for 18 of the last 20 centuries. Chinese observers are rightfully resentful of critics and cynics questioning China's justification for its "peaceful rise."

Yet, Western observers do raise their own legitimate concerns. Chinese mercantilist tendencies, increasingly assertive international behavior, and patronage of the most despicable regimes on the planet have caused alarm and trepidation. The 2011 Libyan crisis presented another example of China's growing interests globally in both commercial and military terms. Tens of thousands of Chinese workers, primarily from the petroleum and construction industries, had to be evacuated from Libya during the civil unrest. This large presence of Chinese workers came as a surprise to many international observers. The Chinese government conducted their own version of a non-combatant evacuation operation (NEO) using solely commercial assets. However, a Chinese warship, the Jiangkai-II Class missile frigate XUZHOU, was also present in the Mediterranean during this NEO. This was a first for China and did not go wholly unnoticed in the international press and in various foreign capitals. Chinese commercial activities abroad can carry military implications.

As Robert Kagan wrote, “Power changes nations. It expands their wants and desires, increases their sense of entitlement, their need for deference and respect. It also makes them more ambitious. It lessens their tolerance to obstacles, their willingness to take no for an answer.”⁴² The question that the world is facing now is whether this century will be “the Chinese Century” and if the positive connotations thereof will outweigh the negative.

Notes

- 1 Peter Wood and Kerry Brown, “China ODI: Buying into the Global Economy,” XRG C-ODI Report, October 2009, 5.
- 2 Shi Jiangtao, “Hu Hails Reforms, says Much More Still to Do,” *China Daily*, December 19, 2008, 1.
- 3 Deng Xiaoping, “Why China has Opened Its Doors,” *Foreign Broadcast Information Service, Daily Report: China*, February 12, 1980, LI-5.
- 4 “World Investment Report,” United Nations Conference on Trade and Development (UNCTAD), 2005.
- 5 Yun Schueler-Zhou, Margot Schueller, and Magnus Brod, “Chinas Going Global – Finanzmarktkrise bietet Chancen fuer chinesische Investoren im Ausland,” *GIGA Focus*, August 2010, 2.
- 6 David Zweig, “China and the World Economy: The Rise of a New Trading Nation” (paper presented at the World International Studies Association, Ljubljana, Slovenia, July 24, 2008) .
- 7 Jiang Zemin, report delivered at the 15th National Congress of the Communist Party of China on September 12, 1997.
- 8 Elizabeth Economy, “The Game Changer,” *Foreign Affairs* 89, no. 6 (November-December 2010): 145.
- 9 *BBC World*, December 29, 2007.
- 10 Zeng Bijian, “China’s Peaceful Rise,” *Foreign Affairs* 84, no. 5, (September-October 2005): 18-24.
- 11 Kevin Cai, “Outward Foreign Direct Investment: A Novel Dimension of China’s Integration into the Regional and Global Economy,” *The China Quarterly*, no.160 (1999): 859.
- 12 “FACTBOX: China’s outbound M&A in 2009 and the past decade,” Thomson Reuters, January 20, 2010, <http://in.reuters.com>.
- 13 David Zweig, “A New Trading State Meets the Developing World,” Hong Kong University of Science and Technology, Working Paper 31, 2010.
- 14 Schueler-Zhou, Schueller, and Brod, “Chinas Going Global – Finanzmarktkrise bietet Chancen fuer chinesische Investoren im Ausland,” 4.
- 15 MOFCOM Website, www.mofcom.gov.cn.
- 16 “China issues new guidelines for overseas investment,” *People’s Daily*, April 10, 2009, <http://english.peopledaily.com.cn>.
- 17 Schueler-Zhou, Schueller, and Brod, “Chinas Going Global – Finanzmarktkrise bietet Chancen fuer chinesische Investoren im Ausland,” 4.

18 MOFCOM Website, www.mofcom.gov.cn.

19 “The Struggle of the Champions,” *The Economist*, January 6, 2005.

20 Nolan and Zhang, “The Globalization Challenge for Large Firms from Developing Countries: the Case of China’s Oil and Aerospace Industries,” 3.

21 Derek Scissors, “Deng Undone,” *Foreign Affairs* 88, no. 3 (May/June 2009): 28.

22 Linda Jakobson and Dean Knox, “New Foreign Policy Actors in China,” SIPRI Policy Paper #26, September 2010.

23 Ibid., 26.

24 Ibid., 27.

25 Frederik Balfour, “The State’s Long Apron Strings,” *Business Week*, August 22, 2005, 61.

26 Scissors, “Deng Undone,” 28.

27 Wood and Brown, “China ODI: Buying into the Global Economy,” 30.

28 China Eximbank website, <http://english.eximbank.gov.cn/>.

29 “China Mobile Bids to Take Her First Global Step,” *China Daily*, March 15, 2005.

30 Bill Powell, “Enter the Dragon,” *Time*, August 2, 2007, <http://www.time.com/time/magazine/article/0,9171,1649318,00.html>.

31 Wood and Brown, “China ODI: Buying into the Global Economy,” 34.

32 Au Loong Yu and Kevin Li, “Preliminary Report on China’s Going Global Strategy,” *Globalization Monitor Limited*, February 2009, 27-28

33 Andrews-Speed and Vinogradov, “China’s Involvement in Central Asian Petroleum,” 389.

34 Schuler-Zhou, Schueller, and Brod, “Chinas Going Global – Finanzmarktkrise bietet Chancen fuer chinesische Investoren im Ausland,” 3.

35 Bill Powell, “Buying Binge,” *Time*, March 16, 2009, 26-27.

36 Wood and Brown, “China ODI: Buying into the Global Economy,” 34.

37 Andy Rothman, “China Eats the World: The Sustainability of Chinese Commodities Demand,” Credit Lyonnais Securities Asia, March 2005.

38 Powell, “Buying Binge,” 26.

39 Schueler-Zhou, Schueller, and Brod, “Chinas Going Global – Finanzmarktkrise bietet Chancen fuer chinesische Investoren im Ausland,” 3.

40 Zhan, “Transnationalization and Outward Investment: the case of Chinese Firms.”

41 Joann Lublin and Shayndi Raice, “Security Fears Kill Chinese Bid in U.S.,” *Wall Street Journal*, November 5, 2010, <http://online.wsj.com/article/SB10001424052748704353504575596611547810220.html#ixzz19uOyvYZf>.

42 “Less Biding and Hiding,” *The Economist*, December 4, 2010, 9.